

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Charter Township of China</b>	County <b>St. Clair</b>
Audit Date <b>12/31/05</b>	Opinion Date <b>05/05/06</b>	Date Accountant Report Submitted to State: <b>06/30/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<b>X</b>		
Reports on individual federal financial assistance programs (program audits).			<b>X</b>
Single Audit Reports (ASLGU).			<b>X</b>

Certified Public Accountant (Firm Name) <b>Stewart, Beauvais &amp; Whipple PC</b>			
Street Address <b>1979 Holland Avenue</b>	City <b>Port Huron</b>	State <b>MI</b>	ZIP <b>48060</b>
Accountant Signature 		Date <b>06/30/06</b>	

**CHARTER TOWNSHIP OF CHINA, MICHIGAN**

**ANNUAL FINANCIAL REPORT  
with Supplementary Information**

**FOR THE YEAR ENDED  
DECEMBER 31, 2005**

Stewart,  
Beauvais  
& Whipple P.C.

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CERTIFIED PUBLIC ACCOUNTANTS



**CHARTER TOWNSHIP OF CHINA, MICHIGAN**  
**St. Clair County, Michigan**

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**DECEMBER 31, 2005**

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## INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of the  
Charter Township of China  
St. Clair County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of China, Michigan, as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of China's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of China, Michigan, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 7, and schedules of budgetary comparisons on pages 35 and 37 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of China's basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Certified Public Accountants

May 5, 2006

### OVERVIEW OF THE FINANCIAL STATEMENTS

The Charter Township of China's 2005 annual report is presented in conformity with the requirements of GASB 34. This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information, which presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the Township. The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the Township's government, reporting the Township's operations in more detail than the government-wide statements.

#### *Government-wide Financial Statements*

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets, defined as the difference between the Township's assets and liabilities, are one way to measure the Township's financial health or position.

The government-wide financial statements of the Township are divided into two categories:

**Governmental activities** – most of the Township's basic services are included here, such as the police, fire, public works, and general administration. Property taxes, state-shared revenue, and charges for services, provide most of the funding.

**Business-type activities** – the Township charges fees to customers to help it cover the costs of certain services it provides. The Township's water and sewer operations are treated as business-type activities.

#### *Fund Financial Statements*

The fund financial statements provide more detailed information about the Township's most significant funds; not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The Township Board establishes other funds to control and manage money for particular purposes.

The Township has three kinds of funds:

**Governmental Funds** - Most of the Township's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs.

**Proprietary Funds** – are used to report services for which the Township charges customers a fee for those services. The Township has two enterprise funds, the Water and Sewer Funds.

**Fiduciary Funds** – The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Township’s fiduciary activities are reported in a separate statement of assets and liabilities. We exclude these activities from the Township’s government-wide financial statements because the Township cannot use these assets to finance its operations.

## **FINANCIAL OVERVIEW (Government-wide financial analysis)**

The Township has combined total net assets of \$9,186,980. This is an increase of \$798,490 from 2004. Government-type activities comprise \$5,297,961, and business-type activities make up \$3,889,019 of the total net assets. In a condensed format, the table below shows net assets as of December 31, 2005 and 2004.

### **In Thousands**

	Governmental Activities		Business-type Activities	
	2005	2004	2005	2004
<b>Assets</b>				
Current assets	\$ 4,334	\$ 4,681	\$ 1,129	\$ 1,172
Restricted assets	-	-	761	555
Noncurrent assets	<u>2,250</u>	<u>1,266</u>	<u>4,775</u>	<u>4,572</u>
Total assets	<u>6,584</u>	<u>5,947</u>	<u>6,665</u>	<u>6,299</u>
<b>Liabilities</b>				
Current liabilities	1,286	1,080	211	83
Liabilities payable from				
Restricted assets	-	-	135	130
Long-term liabilities	<u>-</u>	<u>-</u>	<u>2,430</u>	<u>2,564</u>
Total liabilities	<u>1,286</u>	<u>1,080</u>	<u>2,776</u>	<u>2,777</u>
<b>Net Assets</b>				
Invested in capital assets –				
Net of related debt	2,241	1,266	2,338	1,825
Restricted	1,415	1,708	626	545
Unrestricted	<u>1,642</u>	<u>1,893</u>	<u>925</u>	<u>1,152</u>
Total net assets	<u>\$ 5,298</u>	<u>\$ 4,867</u>	<u>\$ 3,889</u>	<u>\$ 3,522</u>

The Township governmental activities experienced a net change in assets of \$431,066.

The following table shows the changes in net assets for 2005 and 2004. Future reports will provide comparative data for the statement of activities.

**In Thousands**

	Governmental Activities		Business-type Activities	
	2005	2004	2005	2004
<b>Revenue</b>				
Program revenue:				
Charges for services	\$ 53	\$ 95	\$ 274	\$ 216
Operating grants and contributions	100	103	-	-
Capital grants and contributions	107	-	320	44
General revenue:				
Property taxes	933	907	127	176
Unrestricted grants	226	219	-	-
Unrestricted investment earnings	145	45	52	14
Total Revenue	<u>1,564</u>	<u>1,369</u>	<u>773</u>	<u>450</u>
<b>Program Expenses</b>				
General government	573	495	-	-
Public safety	273	264	-	-
Public works	231	273	-	-
Recreation and cultural	56	73	-	-
Water and sewer	-	-	406	360
Total Program Expenses	<u>1,133</u>	<u>1,105</u>	<u>406</u>	<u>360</u>
<b>Changes in net assets</b>	<u>\$ 431</u>	<u>\$ 264</u>	<u>\$ 367</u>	<u>\$ 90</u>

***Governmental Activities***

Revenues for governmental activities totaled \$1,564,189 and \$1,368,638 for 2005 and 2004, respectively. Of this amount, \$932,962 and \$907,028 was received from taxes for 2005 and 2004, respectively. The increase in revenues from 2005 to 2004 is due to a capital grant of \$106,833 received for the construction of a bike path and an increase in interest revenue of \$99,943 as interest rates rose in 2005.

Expenses increased by \$28,690 from 2004 to 2005 mainly due to increased legal and professional fees.

***Business-type Activities***

The Township has two business-type activities, the water and sewer operations. Total revenues for 2005 and 2004 were \$772,955 and \$450,755. The \$322,200 increase is primarily due to a capital contribution of \$320,005 for the construction of a sewer line. The tax revenue of \$126,722 for 2005 and \$176,467 for 2004 was to pay contracted debt for the construction of the Township's share of a water plant. The taxes levied decreases in proportion to the debt payment decreases.



## FINANCIAL ANALYSIS OF MAJOR TOWNSHIP FUNDS AND BUDGETS

### *Governmental Fund*

The General fund ended 2005 with a fund balance of \$1,199,919, with \$2,669 reserved for prepaid expenditures and the remaining balance of \$1,197,250 unreserved/undesignated. The general fund balance decreased \$652,486, mainly due to a major road project in 2005. The Township's other major governmental fund (Fire Fund) has revenues in excess of expenditures of \$59,143 due to special assessment collections exceeding contract payments for fire protection and an increase in interest revenue.

The General Fund and the Fire Fund budgets were not amended during the year.

### *Business-type Activities*

As indicated earlier the Township only has two business-type activities, the water and sewer operations. Total revenues amounted to \$772,955 for 2005 and expenses were \$405,531 for an increase in net assets of \$367,424. As noted earlier, the increase in the net assets of the business-type activities is due to a capital contribution for the extension of the sewer line. The related depreciation expense will be charged out over future periods.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### *Capital Assets*

The Township had \$7,018,239 invested in capital assets for its governmental and business-type activities (net of accumulated depreciation) as of December 31, 2005. The investment in capital assets includes land, land improvements, shared road system, buildings and improvements, equipment, water plant and lines, and sewer lines. During the year the Township added \$1,380,990 of capital assets, \$1,060,985 in the government activities and \$320,005 in the business-type activities. The governmental activities' additions included the following items:

Road improvements, including land improvements	\$ 947,553
Bike path	43,713
Park fence	40,971
Township Hall improvements	16,185
Other	<u>12,563</u>
	<u>\$ 1,060,985</u>

The business-type activities' additions were for an extension to the sewer infrastructure.

	Governmental Activities		Business-type Activities	
	2005	2004	2005	2004
Land	\$ 479,788	\$ 195,522	\$ 8,584	\$ 8,584
Shared road system	663,287	-	-	-
Land improvements	1,167,380	1,082,696	-	-
Construction in progress	-	-	320,005	-
Building and Improvements	136,448	120,263	-	-
Equipment	21,182	8,619	-	-
Water and sewer	-	-	<u>5,867,075</u>	<u>5,867,080</u>
	<u>2,468,085</u>	<u>1,407,100</u>	<u>6,195,664</u>	<u>5,875,664</u>
Accumulated depreciation	<u>( 217,820)</u>	<u>( 141,391)</u>	<u>( 1,427,690)</u>	<u>( 1,308,989)</u>
	<u>\$ 2,250,265</u>	<u>\$ 1,265,709</u>	<u>\$ 4,767,974</u>	<u>\$ 4,566,675</u>

Additional information on the Township's capital assets can be found in Note 5 to the financial statements.

### ***Long-Term Debt***

At December 31, 2005, the Township had \$2,563,828 in long-term debt compared to \$2,741,634 at December 31, 2004, a decrease of \$177,806 from the prior year. The following table shows the long-term debt at December 31, 2005:

	Business-Type Activities	
	2005	2004
Sewage Disposal System Contract Payable	\$ -	\$ 45,568
Environmental Quality Bond Contract Payable	2,148,828	2,266,066
Special Assessment Bonds	<u>415,000</u>	<u>430,000</u>
	<u>\$ 2,563,828</u>	<u>\$ 2,741,634</u>

Additional information on the Township's long-term liabilities can be found in Note 10 to the financial statements.

### **ECONOMIC FACTORS AND NEXT YEARS BUDGET**

For 2006, the Township Board adopted a general fund budget with estimated revenues of \$1,331,995 and expenditures of \$2,516,363, and will result in a reduction of \$1,184,368 in fund balance. Although local municipalities in the State of Michigan have seen State Shared Revenues decrease significantly during the past few years, the 2006 budget does not anticipate any significant cuts. The increase in expenditures is the result of a budgeted amount of \$967,000 for a possible settlement of a tax appeal case. See Note 15 to the financial statements for additional information.

### **CONTACTING THE TOWNSHIP**

This financial report is designed to provide a general overview of the Township's finances to our residents and other interested parties in understanding the Township's financial condition. If you have questions about this report or need additional financial information, please contact the Township at (810) 765-1145.

## **BASIC FINANCIAL STATEMENTS**

# CHARTER TOWNSHIP OF CHINA

## St. Clair County, Michigan

### STATEMENT OF NET ASSETS DECEMBER 31, 2005

	Primary Government		
	Governmental Activities	Business Type Activities	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 24,997	\$ 354,152	\$ 379,149
Investments	3,112,627	515,214	3,627,841
Receivables (net of allowance)	1,075,729	236,609	1,312,338
Prepaid items	66,911	-	66,911
Internal balances	( 22,732)	22,732	-
Due from other governmental units	76,269	-	76,269
Restricted Assets -			
Cash and cash equivalents	-	129,690	129,690
Investments	-	206,086	206,086
Property taxes	-	152,607	152,607
Special assessments receivable	-	272,735	272,735
Capital assets (net of accumulated depreciation)			
Assets not being depreciated	479,788	328,589	808,377
Assets being depreciated	1,770,477	4,439,385	6,209,862
Other Assets	-	7,100	7,100
Total Assets	<u>6,584,066</u>	<u>6,664,899</u>	<u>13,248,965</u>
<b>LIABILITIES:</b>			
Payables and accrued liabilities	241,608	194,799	436,407
Accrued interest	-	1,476	1,476
Advances and deposits	2,720	-	2,720
Unearned revenue	1,041,777	1,875	1,043,652
Contract payable	-	12,848	12,848
Liabilities Payable From Restricted Assets	-		
Bonds payable (current)	-	120,996	120,996
Accrued interest	-	13,902	13,902
Non-current liabilities			
Due in more than one year	-	2,429,984	2,429,984
Total Liabilities	<u>1,286,105</u>	<u>2,775,880</u>	<u>4,061,985</u>
<b>NET ASSETS:</b>			
Investment in capital assets, net of related liabilities	2,250,265	2,337,990	4,588,255
Restricted -			
Fire Operations	1,414,947	-	1,414,947
Water Plant Debt	-	626,220	626,220
Unrestricted	1,632,749	924,809	2,557,558
Total Net Assets	<u>\$ 5,297,961</u>	<u>\$ 3,889,019</u>	<u>\$ 9,186,980</u>

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF CHINA**  
**St. Clair County, Michigan**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

		Program Revenues			Net (Expense) Revenue and Change in Net Assets		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business Type Activities	Total
<b>Primary Government</b>							
Governmental activities:							
General Government	\$ 573,199	\$ 9,507	\$ -	\$ -	\$( 563,692)	\$ -	\$( 563,692)
Public Safety	272,622	44,031	87,538	-	( 141,053)	-	( 141,053)
Public Works	231,369	-	-	-	( 231,369)	-	( 231,369)
Recreation and Culture	55,933	-	12,665	106,833	63,565	-	63,565
Total governmental activities	<u>1,133,123</u>	<u>53,538</u>	<u>100,203</u>	<u>106,833</u>	<u>( 872,549)</u>	<u>-</u>	<u>( 872,549)</u>
Business type activities							
Utilities (Water/Sewer)	<u>405,531</u>	<u>274,273</u>	<u>-</u>	<u>320,005</u>	<u>-</u>	<u>188,747</u>	<u>188,747</u>
Total Primary Government	<u>1,538,654</u>	<u>327,811</u>	<u>100,203</u>	<u>426,838</u>	<u>( 872,549)</u>	<u>188,747</u>	<u>( 683,802)</u>
	General revenues:						
	Property taxes				932,962	126,772	1,059,734
	Grants and contribution not-restricted to specific programs				225,577	-	225,577
	Unrestricted investment income				<u>145,076</u>	<u>51,905</u>	<u>196,981</u>
	Total general revenues and transfers				<u>1,303,615</u>	<u>178,677</u>	<u>1,482,292</u>
	Change in net assets				431,066	367,424	798,490
	Net assets at beginning of year				<u>4,866,895</u>	<u>3,521,595</u>	<u>8,388,490</u>
	Net assets at end of year				\$ 5,297,961	\$ 3,889,019	\$ 9,186,980

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF CHINA****St. Clair County, Michigan**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2005**

	<u>General</u>	<u>Fire</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 20,776	\$ -	\$ 4,221	\$ 24,997
Investments	1,345,643	1,269,877	497,107	3,112,627
Receivables -				
Property taxes	953,797	-	-	953,797
Special assessments	-	87,980	-	87,980
Other	20,082	8,036	5,834	33,952
Due from other governmental units	76,269	-	-	76,269
Due from other funds	11,864	20,142	1,800	33,806
Prepays	2,669	40,016	-	42,685
Total Assets	<u>\$ 2,431,100</u>	<u>\$ 1,426,051</u>	<u>\$ 508,962</u>	<u>\$ 4,366,113</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	215,722	20,862	2,080	238,664
Accrued liabilities	2,404	-	540	2,944
Advances and deposits	2,720	-	-	2,720
Due to other funds	56,538	-	-	56,538
Deferred revenue	953,797	87,980	-	1,041,777
Total Liabilities	<u>1,231,181</u>	<u>108,842</u>	<u>2,620</u>	<u>1,342,643</u>
<b>Fund Balances:</b>				
Reserved -				
Prepaid expenditures	2,669	40,016	-	42,685
Unreserved -				
Designated	200,000	-	400,000	600,000
Undesignated -				
General Fund	997,250	-	-	997,250
Special Revenue Funds	-	1,277,193	106,342	1,383,535
Total Equity	<u>1,199,919</u>	<u>1,317,209</u>	<u>506,342</u>	<u>3,023,470</u>
Total Liabilities and Fund Balance	<u>\$ 2,431,100</u>	<u>\$ 1,426,051</u>	<u>\$ 508,962</u>	<u>\$ 4,366,113</u>

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF CHINA**

**St. Clair County, Michigan**

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR  
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
ON THE STATEMENT OF NET ASSETS  
DECEMBER 31, 2005**

Fund Balances - total governmental funds	\$ 3,023,470
Amounts reported for governmental activities in the statement of net assets are different because:	
Prepaid Expenses recorded in the funds on the purchase method	24,226
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets	2,468,085
Accumulated depreciation	( 217,820)
Net Assets of governmental activities	<u>\$ 5,297,961</u>

The accompanying notes are an integral part of these financial statements.

# CHARTER TOWNSHIP OF CHINA

St. Clair County, Michigan

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2005

	General	Fire	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 932,962	\$ -	\$ -	\$ 932,962
Licenses and permits	14	-	44,031	44,045
Intergovernmental -				
Federal/State	346,843	-	-	346,843
Charges for services	5,594	85,770	-	91,364
Interest and rent	75,245	51,569	18,262	145,076
Other	3,899	-	-	3,899
Total Revenues	<u>1,364,557</u>	<u>137,339</u>	<u>62,293</u>	<u>1,564,189</u>
<b>Expenditures:</b>				
Current -				
General Government	622,978	-	-	622,978
Public Safety	142,760	78,196	51,666	272,622
Public Works	1,162,340	-	-	1,162,340
Recreation and Cultural	83,965	-	-	83,965
Total Expenditures	<u>2,012,043</u>	<u>78,196</u>	<u>51,666</u>	<u>2,141,905</u>
Revenues over (under) expenditures	<u>( 647,486)</u>	<u>59,143</u>	<u>10,627</u>	<u>( 577,716)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	5,000	5,000
Transfers Out	<u>( 5,000)</u>	<u>-</u>	<u>-</u>	<u>( 5,000)</u>
	<u>( 5,000)</u>	<u>-</u>	<u>5,000</u>	<u>-</u>
Net Change in Fund Balances	( 652,486)	59,143	15,627	( 577,716)
Fund Balances at beginning of year	<u>1,852,405</u>	<u>1,258,066</u>	<u>490,715</u>	<u>3,601,186</u>
Fund Balances at end of year	<u>\$ 1,199,919</u>	<u>\$ 1,317,209</u>	<u>\$ 506,342</u>	<u>\$ 3,023,470</u>

The accompanying notes are an integral part of these financial statements.



**CHARTER TOWNSHIP OF CHINA**

**St. Clair County, Michigan**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
DECEMBER 31, 2005**

Net change in fund balances - total governmental funds	\$( 577,716)
Change in prepaid expenses recorded in the funds on the purchase method	24,226
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	1,060,985
Depreciation expense	<u>( 76,429)</u>
Change in net assets of governmental activities	<u><u>\$ 431,066</u></u>

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF CHINA**  
**St. Clair County, Michigan**

**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2005**

ASSETS	Water	Sewer	Total
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 102,179	\$ 251,973	\$ 354,152
Investments	-	515,214	515,214
Receivables -			
Accounts	25,404	202,739	228,143
Interest	2,419	6,047	8,466
Due from other funds	34,938	-	34,938
Restricted Assets-			
Cash and cash equivalents	129,690	-	129,690
Investments	206,086	-	206,086
Receivables -			
Property taxes	152,607	-	152,607
Special assessment	272,735	-	272,735
Total Current Assets	926,058	975,973	1,902,031
<b>Capital Assets</b>			
Property, plant and equipment net of accumulated depreciation	3,192,617	1,575,357	4,767,974
<b>Other Assets:</b>			
Deposit with authority	5,000	2,100	7,100
Total Assets	4,123,675	2,553,430	6,677,105
<b>LIABILITIES AND FUND EQUITY</b>			
<b>Current Liabilities:</b>			
Accounts Payable	341	158,438	158,779
Accrued interest	1,476	-	1,476
Due to other governmental units - local	23,259	12,761	36,020
Due to other funds	-	12,206	12,206
Deferred revenue - tap in fees	1,875	-	1,875
Current portion -			
Contract payable - Bonds	12,848	-	12,848
Liabilities payable from restricted assets-			
Accrued interest	13,902	-	13,902
Current portion of contracts payable - bonds	120,996	-	120,996
	174,697	183,405	358,102
<b>Long-Term Liabilities (less current portions):</b>			
Contracts payable - Bonds, net of current portion	2,429,984	-	2,429,984
Total Liabilities	2,604,681	183,405	2,788,086
<b>Net Assets:</b>			
Invested in Capital Assets, net of related liabilities	762,633	1,575,357	2,337,990
Reserved- debt service	626,220	-	626,220
Unreserved	130,141	794,668	924,809
Total Net Assets	\$ 1,518,994	\$ 2,370,025	\$ 3,889,019

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF CHINA****St. Clair County, Michigan**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Operating Revenues:</b>			
User fees	\$ 96,195	\$ 145,979	\$ 242,174
Connection fees	25,733	5,400	31,133
Penalties	639	327	966
Total Operating Revenues	<u>122,567</u>	<u>151,706</u>	<u>274,273</u>
<b>Operating Expenses:</b>			
Professional fees	2,500	2,040	4,540
Purchased water	77,494	-	77,494
Sewer usage	-	84,189	84,189
Depreciation	72,664	46,042	118,706
Repairs and maintenance	10,021	9,651	19,672
Meter reading and maintenance	12,984	-	12,984
Utilities	381	1,936	2,317
Other	-	401	401
Total Operating Expenses	<u>176,044</u>	<u>144,259</u>	<u>320,303</u>
Operating Income (Loss)	<u>( 53,477)</u>	<u>7,447</u>	<u>( 46,030)</u>
<b>Non-Operating Revenues (Expenses):</b>			
Interest earned	26,229	25,676	51,905
Interest on debt	( 83,653)	( 1,575)	( 85,228)
Property taxes	126,772	-	126,772
Total Non Operating Revenues (Expenses)	<u>69,348</u>	<u>24,101</u>	<u>93,449</u>
Net Income Before Capital Contributions	15,871	31,548	47,419
<b>Capital Contributions</b>	<u>-</u>	<u>320,005</u>	<u>320,005</u>
Change in Net Assets	15,871	351,553	367,424
Net Assets at beginning of year	<u>1,503,123</u>	<u>2,018,472</u>	<u>3,521,595</u>
Net Assets at end of year	<u><u>\$ 1,518,994</u></u>	<u><u>\$ 2,370,025</u></u>	<u><u>\$ 3,889,019</u></u>

The accompanying notes are an integral part of these financial statements.

# CHARTER TOWNSHIP OF CHINA

St. Clair County, Michigan

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE YEAR ENDED DECEMBER 31, 2005

	Water	Sewer	Total
<b>Cash Flows From Operating Activities:</b>			
Receipts from customers	\$ 112,698	\$ 148,074	\$ 260,772
Payments to suppliers	( 85,627)	( 101,735)	( 187,362)
Net Cash Provided by Operating Activities	<u>27,071</u>	<u>46,339</u>	<u>73,410</u>
<b>Cash Flows From Non-Capital Financing Activities:</b>			
Change in due to/from other funds	( 33,438)	13,706	( 19,732)
<b>Cash Flows From Capital and Related Financing Activities:</b>			
Acquisition and construction of capital assets	-	( 161,567)	( 161,567)
Capital contributions	-	148,221	148,221
Interest collected on special assessments	23,810	-	23,810
Collection of special assessment principal	20,163	-	20,163
Principal paid on long-term debt	( 132,238)	( 45,568)	( 177,806)
Interest paid on long-term debt	( 79,671)	( 1,575)	( 81,246)
Property taxes received	153,484	-	153,484
Net Cash Used by Capital and Related Financing Activities	<u>( 14,452)</u>	<u>( 60,489)</u>	<u>( 74,941)</u>
<b>Cash Flows From Investing Activities:</b>			
Interest received	-	19,629	19,629
Purchase of Investments	( 206,086)	( 515,214)	( 721,300)
Net Cash Used by Investing Activities	<u>( 206,086)</u>	<u>( 495,585)</u>	<u>( 701,671)</u>
Net Decrease in cash and cash equivalents	( 226,905)	( 496,029)	( 722,934)
Cash and cash equivalents at beginning of year	<u>458,774</u>	<u>750,102</u>	<u>1,208,876</u>
Cash and cash equivalents at end of year	<u>\$ 231,869</u>	<u>\$ 254,073</u>	<u>\$ 485,942</u>
<b>Reconciliation of Operating Income (Loss) to net cash provided by operating activities:</b>			
Operating Income (Loss)	\$( 53,477)	\$ 7,447	\$( 46,030)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	72,664	46,042	118,706
Change in assets and liabilities -			
Receivables	( 9,869)	( 5,732)	( 15,601)
Accounts and other payables	<u>17,753</u>	<u>( 3,518)</u>	<u>14,235</u>
Net Cash Provided by Operating Activities	<u>\$ 27,071</u>	<u>\$ 44,239</u>	<u>\$ 71,310</u>

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF CHINA**

**St. Clair County, Michigan**

**STATEMENT OF FIDUCIARY NET ASSETS**

**FIDUCIARY FUNDS**

**DECEMBER 31, 2005**

	<u>Agency Funds</u>
<b>ASSETS:</b>	
Cash and cash equivalents	<u>\$     197,590</u>
<b>LIABILITIES:</b>	
Due to -	
Individuals	23,000
Undistributed taxes	<u>174,590</u>
Total Liabilities	<u>\$     197,590</u>

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**A. Reporting Entity -**

The Charter Township of China, Michigan, a Municipal Corporation, was organized as a Township on March 17, 1840, under provisions of the constitution and general law of the State of Michigan and became a Charter Law Township on October 2, 1989, under Public Act 359, the Charter Township Act. The Township is one of twenty-three Townships in St. Clair County and covers an area of approximately 32 square miles. The Township operates under an elected Township Board which consists of a Supervisor, Clerk, Treasurer, and four (4) Trustees, and provides services to its more than 3,200 residents in many areas including law enforcement, fire protection, water, sewer, roads, parks and natural resources, and planning and economic development.

**B. Government-wide and fund financial statements -**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the non-fiduciary activities of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type-activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods services, or privileges provided by a given function or segment. Taxes and other items not included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement focus, basis of accounting and financial statement presentation -**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are intended to finance (the December 2003 levy in 2004). Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

# CHARTER TOWNSHIP OF CHINA

St. Clair County, Michigan

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgment are recorded only when payment is due.

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes, which are levied and collected in December of each year, are budgeted and treated as revenue in the subsequent year. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The Township reports the following major governmental funds:

**General Fund** – is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Township Fire Fund** – is a special revenue fund used to account for tax revenue restricted for fire service of the Township.

The Township reports the following major proprietary fund:

**Water Fund** – is used to account for the treatment and distribution of water to residential and commercial users.

**Sewer Fund** – is used to account for sanitary sewer services provided to the residential and commercial users.

Additionally, the Township reports the following fund types:

**Special Revenue Funds** – are used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulation provisions or administrative actions.

**Agency Funds** – are used to account for assets held by the Township as an agent for other governments and other funds.

# CHARTER TOWNSHIP OF CHINA

St. Clair County, Michigan

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principle on-going operations. The principle operating revenues of the Enterprise Funds is charged to customers for sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, the unrestricted resources, as they are needed.

#### **D. Assets, Liabilities and Net Assets or Equity –**

##### **Deposits and Investments –**

The Township's cash and cash equivalents are considered to be cash on hand and demand deposits. The investment trusts have the general characteristics of demand deposit accounts in that the Township may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty, and are reported as cash and cash equivalents.

Investments are stated at fair value, which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates; (c) investments that do not have established market values are reported at estimated fair value; and (d) cash deposits are reported at carrying amount which reasonable approximates fair value.

State statutes authorize the Township to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).



**CHARTER TOWNSHIP OF CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Receivables and Payables –**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e. the current portion of interfund loans) or “advances to/from other funds” (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectible.

**Inventories and Prepaid Items –**

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items in the statement of net assets.

**Property Tax Calendar –**

The Township’s property tax is levied each December 1 on the taxable value of property located in the Township as if the proceeding December 31. Property taxes are recognized as revenues in the year they were intended to finance (the 2004 levy is recognized in 2005 for the general fund).

The Township also collects taxes for various other municipalities and school districts. The collection and remittance of these taxes are accounted for in the Tax Collection Fund.

**Capital Assets –**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. shared roads and bridge improvements, sidewalks, bike paths and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of a year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

**CHARTER TOWNSHIP OF CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

As permitted by GASB Statement No. 34, the Township has elected not to report governmental infrastructure assets (principally shared roads and bridge improvements) acquired prior to January 1, 2004.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

	<u>Primary Government</u>
Land Improvements	10-25
Buildings and improvements	10-40
Utility systems	60
Equipment	5-20
Shared street improvements	20

**Compensated Absences –**

In accordance with contracts negotiated with the various employee groups of the Township, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contracts.

**Long-Term Obligations –**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund Equity –**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**CHARTER TOWNSHIP OF CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Estimates –**

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

**Budgetary Information –**

The Township Supervisor prepares and submits the proposed operating budgets for the year commencing January 1. The budgets include proposed expenditures and resources to finance them.

Prior to December 31, the proposed budget is presented to the Township Board. The Board holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through the passage of a Township Resolution. After the budget is adopted, all amendments must be approved by the Township Board.

The Township's approved budgets were adopted at the function level for the General Fund and Special Revenue Funds. The function level is the legal level requiring approval by the Board for amendments; however, for control purposes, all the budgets are maintained at the account level.

The Township does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

Michigan Public Act 621 of 1978, Section 18, as amended, provides that a local government unit shall not incur expenditures in excess of the amount appropriated.

During the fiscal year ended December 31, 2005, the Township incurred expenditures in the Special Revenue Funds, which were in excess of the amount appropriated as follows:

<u>Function/Activity</u>	<u>Total Appropriations</u>	<u>Amount Expended</u>	<u>Budget Variance</u>
General Fund –			
Public Safety	\$ 134,811	\$ 142,760	\$ 7,949
Recreation and Cultural	54,967	83,965	28,998
Building Inspections Fund –			
Public Safety	46,125	51,466	5,341

**CHARTER TOWNSHIP OF CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 3 - DEPOSITS AND INVESTMENTS:**

As of December 31, 2005, the carrying amount of the deposits and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Deposits –			
Checking	\$ 508,574	\$ 197,590	\$ 706,164
Certificates of deposit	<u>3,822,823</u>	<u>-</u>	<u>3,822,823</u>
Cash on hand –	4,331,397	197,590	4,528,987
Petty cash	<u>265</u>	<u>-</u>	<u>265</u>
	<u>\$ 4,331,662</u>	<u>\$ 197,590</u>	<u>\$ 4,529,252</u>
Reconciliation To Combined Balance Sheet			
Reported as Cash and Cash Equivalents –			
Deposits	\$ 508,574	\$ 197,590	\$ 706,164
Petty cash	<u>265</u>	<u>-</u>	<u>265</u>
Total Cash and Cash Equivalents	508,839	197,590	706,429
Reported as Investments –			
Deposits	<u>3,822,823</u>	<u>-</u>	<u>3,822,823</u>
Grant Total Combined Balance Sheet	<u>\$ 4,331,662</u>	<u>\$ 197,590</u>	<u>\$ 4,529,252</u>

**Deposits –**

The Township's investment policy and Act 217 PA 1982, as amended, authorizes the Township to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

**Custodial Credit Risk** - Custodial credit risk for deposits is the risk that in the event of a bank failure, the Township's deposits may not be returned. As an indication of the level of custodial credit risk assumed by the Township as of December 31, 2005, the book value of the Township's deposits was \$4,528,987 with a corresponding bank balance of \$4,568,962, of which \$400,000 was FDIC insured with the remaining \$4,168,962 uninsured and uncollateralized. The Township investment policy does not address custodial credit risk.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

**CHARTER TOWNSHIP OF CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 4 – RECEIVABLES:**

Receivables in the governmental and business-type activities are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Property Taxes	\$ 953,797	\$ -
Special assessments	87,980	-
Interest and accounts	<u>33,952</u>	<u>238,709</u>
	<u>\$ 1,075,729</u>	<u>\$ 238,709</u>

**NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES:**

The composition of interfund balances as of December 31, 2005:

Due To/From Other Funds -

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Sewer Fund	\$ <u>11,864</u>
Fire Fund	General Fund	<u>20,142</u>
Non Major Governmental - Public Improvement Fund	General Fund	<u>1,800</u>
Water Fund	Sewer Fund	342
	General Fund	<u>34,596</u>
		<u>34,938</u>
Total		<u>\$ 68,744</u>

The amounts due between funds represent (1) amounts owed for expenditures paid out of funds where the expenditure is recorded in a different fund and (2) amounts owed for revenues held in one fund that belong to another fund.

Transfers From/To Other Funds -

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Building Inspection Fund	General Fund	\$ 5,000

The above transfer represents an appropriation to cover the operations of the Building Inspections Fund.

**CHARTER TOWNSHIP OF CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 6 - CAPITAL ASSETS:**

**Primary Government**

Capital asset activity of the primary government for the year ended December 31, 2005 was as follows:

	<u>Jan. 1, 2005</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions/</u> <u>Adjustments</u>	<u>Dec. 31, 2005</u> <u>Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 195,522	\$ 284,266	\$ -	\$ 479,788
Capital assets, being depreciated:				
Land improvements	1,082,696	84,684	-	1,167,380
Shared road system	-	663,287	-	663,287
Buildings and improvements	120,263	16,185	-	136,448
Equipment	8,619	12,563	-	21,182
Total capital assets being depreciated	<u>1,211,578</u>	<u>776,719</u>	<u>-</u>	<u>1,988,297</u>
Less accumulated depreciation	( 141,391)	( 76,429)	-	( 217,820)
Total capital assets being depreciated, net	<u>1,070,187</u>	<u>700,290</u>	<u>-</u>	<u>1,770,477</u>
Governmental activities capital assets, net	<u>\$ 1,265,709</u>	<u>\$ 984,556</u>	<u>\$ -</u>	<u>\$ 2,250,265</u>
<b>Business Type Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 8,584	\$ -	\$ -	\$ 8,584
Construction in progress	-	320,005	-	320,005
	<u>8,584</u>	<u>320,005</u>	<u>-</u>	<u>328,589</u>
Capital assets, being depreciated:				
Plant and Buildings	4,447,839	-	-	4,447,839
Mains and extensions	1,416,752	-	-	1,416,752
Equipment	2,484	-	-	2,484
Total capital assets being depreciated	5,867,075	-	-	5,867,075
Less accumulated depreciation	( 1,308,984)	( 118,706)	-	( 1,427,690)
Total capital assets being depreciated, net	<u>4,558,091</u>	<u>( 118,706)</u>	<u>-</u>	<u>4,439,385</u>
Business activities capital assets, net	<u>\$ 4,566,675</u>	<u>\$( 201,299)</u>	<u>\$ -</u>	<u>\$ 4,767,974</u>

**CHARTER TOWNSHIP OF CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 6 - CAPITAL ASSETS - (cont'd):**

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 3,195
Recreation and Culture	56,652
Public Works	<u>16,582</u>
 Total depreciation expense-governmental activities	 \$ <u>76,429</u>
 Business-type activities:	
Water and Sewer Operations	\$ <u>118,706</u>

**NOTE 7 – PROPERTY TAXES:**

The Township property taxes are levied each December on the taxable valuation of the property located in the Township as of the preceding December 31. On December 1, the property tax attachment is an enforceable lien on property and is payable by the last day of the following February.

Although the Township's ad valorem tax is levied and collectible on December 1, it is the Township's policy to recognize in governmental fund types revenues from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of Township operations.

Assessed values are established annually by the Township and are equalized by the State at an estimated percentage of the current market value. A taxable value is established on which taxes are calculated. Real and personal property in the Township for the 2005 and 2004 levies have a taxable value of \$476,898,592 and \$466,616,791, respectively.

The property taxes levied at December 1, are accrued as current taxes receivable with the appropriate deferral and are budgeted as revenue in the subsequent year in the General Fund. The property taxes levied for the Water Plant debt (an Enterprise Fund) are accrued as current taxes receivable and recognized when the tax is levied (December 1).

The millages for the Charter Township of China levied on December 1, 2005 and 2004 are 2.3200 mills and 2.3290 mills, respectively, which is allocated in the following manner:

	<u>2005</u>	<u>2004</u>
Township operating tax rate	1.0000 mills	1.0000 mills
 Roads	 1.0000	 1.0000
 Water Plant debt	 <u>.3200</u>	 <u>.3290</u>
	<u>2.3200 mills</u>	<u>2.3290 mills</u>

**CHARTER TOWNSHIP OF CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 8 – PAYABLES:**

Payables in the governmental and business-type activities are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts Payable	\$ 238,664	\$ 158,779
Wages and fringe benefits	2,944	-
Intergovernmental – Local	<u>-</u>	<u>36,020</u>
	<u>\$ 241,608</u>	<u>\$ 194,799</u>

**NOTE 9 – UNEARNED REVENUE:**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds and business funds defer revenue recognition in connection with resources that have been received, but not earned or are received in advance of the period they are intended to finance. At the end of the current fiscal year the total deferred revenue reported in the governmental funds was unearned.

**NOTE 10 - LONG-TERM LIABILITIES:**

The following is a summary of changes in long-term liabilities (including current portions) of the Primary Government for the year ended December 31, 2005:

	<u>Balance January 1, 2005</u>	<u>Reductions</u>	<u>Balance December 31, 2005</u>	<u>Due Within One Year</u>
<b><u>Business-type Activities:</u></b>				
Sewage Disposal System				
Contract payable –				
1989 Refunding Bonds	\$ 45,568	\$ 45,568	\$ -	\$ -
Water Supply System				
Contract payable –				
1999 Special Assessment Bonds	430,000	15,000	415,000	15,000
2000 Department of Environmental Quality Bonds	<u>2,266,066</u>	<u>117,238</u>	<u>2,148,828</u>	<u>118,844</u>
	<u>\$ 2,741,634</u>	<u>\$ 177,806</u>	<u>\$ 2,563,828</u>	<u>\$ 133,844</u>



**CHARTER TOWNSHIP OF CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 10 - LONG-TERM LIABILITIES - (cont'd):**

Significant details regarding outstanding long-term liabilities (including current portions) are presented as follows:

**Water Supply System 1997 Special Assessment Bonds:**

The Charter Township of China has one Water Supply System Special Assessment Bond issue outstanding at December 31, 2005, from which the proceeds were used for Water System construction. The Special Assessment Water Bonds, dated July 1, 1997, (original issue \$520,000) are due in annual installments ranging from \$15,000-\$20,000 through July 1, 2027, with interest ranging from 4.9% to 5.9%, payable semi-annually.

<u>Year Ending</u> <u>December 31,</u>	<u>Interest</u> <u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Due</u>
2006	4.90 %	\$ 15,000	\$ 23,008	\$ 38,008
2007	5.00	15,000	22,265	37,265
2008	5.10	15,000	21,508	36,508
2009	5.20	15,000	20,735	35,735
2010	5.30	15,000	19,948	34,948
2011-2027	5.40-5.90	<u>340,000</u>	<u>168,305</u>	<u>508,305</u>
		<u>\$ 415,000</u>	<u>\$ 275,769</u>	<u>\$ 690,769</u>

**Water Supply System 1999 Department of Environmental Quality Bonds:**

In order to finance the cost of constructing a new Water Filtration Plant, the Charter Township of China along with the Charter Township of East China through the St. Clair County Department of Public Works have participated in the Drinking Water Revolving Fund through which Department of Environmental Quality Bonds have been sold in the amount of \$7,500,000 and \$925,000.

The amount is apportioned between the Charter Township of China and East China in the ratio of 32.12% and 67.88%, respectively.

The Townships are required to make payments to the DPW to meet debt service requirements. It is the intention of the Charter Township of China to pay the obligation for Issue A to the County from property taxes, and Issue B from connection charges and operating revenues from the system. Upon final payment of the respective bond issues ownership of 32.12% of the system will revert to the Township.

**CHARTER TOWNSHIP OF CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE 10 - LONG-TERM LIABILITIES - (cont'd):**

The balance of the Issue A and Issue B bonds payable at December 31, 2005, which represent the 32.12% apportioned to the Charter Township of China is \$1,912,746 and \$236,082, respectively. The annual requirements to pay the principal and interest on the Issue A and Issue B Department of Environment Quality Bonds are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Interest</u> <u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Due</u>
2006	2.5 %	\$ 118,844	\$ 52,235	\$ 171,079
2007	2.5	122,056	49,224	171,280
2008	2.5	126,874	46,112	172,986
2009	2.5	128,480	42,920	171,400
2010	2.5	131,692	39,668	171,360
2011-2020	2.5	<u>1,520,882</u>	<u>198,000</u>	<u>1,718,882</u>
		<u>\$ 2,148,828</u>	<u>\$ 428,159</u>	<u>\$ 2,576,987</u>

**NOTE 11 - OPERATION OF SEWAGE DISPOSAL AND WATER SYSTEMS:**

The Charter Townships of China and East China entered into an agreement with St. Clair County to acquire and construct a sewage disposal system and water system. The County has completed construction of the systems and is leasing them to the Townships. The Townships have contracted with the St. Clair River Sewer and Water Authority, a public corporation established by the Townships, for the operation, maintenance and administration of the project as permitted by the contract with the County. Upon final payment of the bond issues described in Note 7, ownership in the systems will revert to the Townships. The St. Clair River Sewer and Water Authority is reported in the annual financial statements of the Charter Township of East China as a discretely presented component unit. The Authority does not report the Utility Fixed Assets on its Balance Sheet. The Townships report the respective equity portion of the Fixed Assets on the Balance Sheets of the respective Sewer and Water Funds.

**NOTE 12 - DEFERRED COMPENSATION:**

The Township offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits the employee to defer a portion of their salary until future years. The deferred compensation is not available until termination, retirement, death, or unforeseeable emergency.

A trust, custodial account or annuity contract exists. Assets are owned or held by the trust, custodian or insurer for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of public employer creditors nor can they be used by the public employer for any purpose other than the payment of benefits to those individuals participating in the plan or their designated beneficiaries.

As part of its fiduciary role, the Township has an obligation of due care in selecting the third party administrator. The Township believes it has acted in a prudent manner and is not liable for losses that may arise from the administration of the plan.

**CHARTER TOWNSHIP OF CHINA**  
**St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 13 - PRINCIPAL TAXPAYER AND UTILITY CUSTOMER:**

The Detroit Edison located within the Township provides a significant portion of both property tax and utility revenue. Such revenue and the approximate percentage of the total individual revenues for the year ended December 31, 2005, are summarized below:

	<u>Approximate Percentage</u>
Property taxes - General operating	70 %
- Roads	70
- Water system debt	70
Special assessments – fire	70
Sewer Services	71
Water Services	19

**NOTE 14 - RISK MANAGEMENT:**

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, injuries to employees, medical benefits provided to employees, etc. The Township has purchased insurance coverage for each of these types of losses; however, the Township would be responsible should the limit of coverages be exceeded.

**NOTE 15 - CONTINGENT LIABILITIES:**

**Primary Government –**

One of the Township's major taxpayers, the Detroit Edison Company, is appealing its tax assessments for the 2002, 2003 and 2004 tax assessments. The taxpayer has paid the contested amount. Should the taxpayer prevail, the Township would be required to refund approximately \$814,032 plus interest for 2002 and 2003 tax levies. In addition, the Township would be required to refund approximately \$843,457 for 2004 and 2005 tax levies. The Township intends to vigorously defend the original assessments and believes they will prevail. Due to the matter of the appeal, it is impossible to estimate potential liability, if any.

**NOTE 16 – DESIGNATED FUND BALANCE:**

Amounts designated in the general and public improvement funds are for the appeal of the tax assessments described in Note 15.

## **REQUIRED SUPPLEMENTARY INFORMATION**

# CHARTER TOWNSHIP OF CHINA

St. Clair County, Michigan

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

### GENERAL FUND

### BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Taxes	\$ 933,200	\$ 933,200	\$ 932,962	\$( 238)
Licenses and permits	250	250	14	( 236)
Intergovernmental	238,467	238,467	346,843	108,376
Charges for services	6,100	6,100	5,594	( 506)
Interest and rent	14,300	14,300	75,245	60,945
Other revenues	3,000	3,000	3,899	899
Total Revenues	<u>1,195,317</u>	<u>1,195,317</u>	<u>1,364,557</u>	<u>169,240</u>
<b>Expenditures:</b>				
General Government -				
Legislative	420,424	420,424	198,009	222,415
Supervisor	31,955	31,955	31,181	774
Elections	4,875	4,875	1,856	3,019
Clerical administrator	39,915	39,915	37,038	2,877
Assessor	34,780	34,780	36,449	( 1,669)
Clerk's department	24,598	24,598	21,605	2,993
Board of review	1,450	1,450	793	657
Treasurer's department	35,765	35,765	34,597	1,168
Building and grounds	<u>201,020</u>	<u>201,020</u>	<u>261,450</u>	<u>( 60,430)</u>
	<u>794,782</u>	<u>794,782</u>	<u>622,978</u>	<u>171,804</u>
Public Safety -				
Sheriff patrol	110,000	110,000	106,600	3,400
Constable	1,001	1,001	1,015	( 14)
Planning Commission	21,750	21,750	34,278	( 12,528)
Board of appeals	<u>2,060</u>	<u>2,060</u>	<u>867</u>	<u>1,193</u>
	<u>134,811</u>	<u>134,811</u>	<u>142,760</u>	<u>( 7,949)</u>
Public Works -				
Roads and bikepaths	1,507,500	1,507,500	1,155,400	352,100
Street lights	5,000	5,000	6,298	( 1,298)
Drains	<u>38,000</u>	<u>38,000</u>	<u>642</u>	<u>37,358</u>
	<u>1,550,500</u>	<u>1,550,500</u>	<u>1,162,340</u>	<u>388,160</u>
Recreation and Cultural -	<u>54,967</u>	<u>54,967</u>	<u>83,965</u>	<u>( 28,998)</u>

Continued

**CHARTER TOWNSHIP OF CHINA****St. Clair County, Michigan****STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****GENERAL FUND****BUDGET AND ACTUAL****FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Expenditures - (cont'd):</b>				
Other	<u>231,032</u>	<u>231,032</u>	<u>-</u>	<u>231,032</u>
Total Expenditures	<u>2,766,092</u>	<u>2,766,092</u>	<u>2,012,043</u>	<u>754,049</u>
 Revenues under expenditures	( 1,570,775)	( 1,570,775)	( 647,486)	923,289
<b>Other Financing Uses:</b>				
Transfers out	<u>( 200,000)</u>	<u>( 200,000)</u>	<u>( 5,000)</u>	<u>195,000</u>
Net change in Fund Balance	( 1,770,775)	( 1,770,775)	( 652,486)	1,118,289
Fund Balance at beginning of year	<u>1,852,405</u>	<u>1,852,405</u>	<u>1,852,405</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 81,630</u></u>	<u><u>\$ 81,630</u></u>	<u><u>\$ 1,199,919</u></u>	<u><u>\$ 1,118,289</u></u>

Concluded

**CHARTER TOWNSHIP OF CHINA****St. Clair County, Michigan****STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****FIRE FUND****BUDGET AND ACTUAL****FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues:</b>				
Interest	\$ 15,000	\$ 15,000	\$ 51,569	\$ 36,569
Special Assessments	<u>85,775</u>	<u>85,775</u>	<u>85,770</u>	<u>( 5)</u>
Total Revenues	<u>100,775</u>	<u>100,775</u>	<u>137,339</u>	<u>36,564</u>
<b>Expenditures:</b>				
Public Safety -				
Professional Fees	200	200	200	-
Fire Protection	30,000	30,000	23,661	6,339
Fire Authority	<u>55,000</u>	<u>55,000</u>	<u>54,335</u>	<u>665</u>
Total Expenditures	<u>85,200</u>	<u>85,200</u>	<u>78,196</u>	<u>7,004</u>
Revenues over expenditures	15,575	15,575	59,143	43,568
Fund Balance at beginning of year	<u>1,258,066</u>	<u>1,258,066</u>	<u>1,258,066</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 1,273,641</u>	<u>\$ 1,273,641</u>	<u>\$ 1,317,209</u>	<u>\$ 43,568</u>

## **SUPPLEMENTARY INFORMATION**



**CHARTER TOWNSHIP OF CHINA**  
**St. Clair County, Michigan**

**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2005**

		<u>Special Revenue Funds</u>		
		<u>Public</u>	<u>Building</u>	
		<u>Improvement</u>	<u>Inspection</u>	<u>Total</u>
<b>ASSETS</b>				
<b>Current assets -</b>				
Cash and cash equivalents		\$ -	\$ 4,221	\$ 4,221
Investments		497,107	-	497,107
Receivables - Other		5,834	-	5,834
Due from other funds		1,800	-	1,800
Total Assets		<u>\$ 504,741</u>	<u>\$ 4,221</u>	<u>\$ 508,962</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>Liabilities:</b>				
Accounts payable		\$ -	\$ 2,080	\$ 2,080
Accrued liabilities		-	540	540
Total Liabilities		<u>-</u>	<u>2,620</u>	<u>2,620</u>
<b>Fund Balance:</b>				
Unreserved -				
Designated		400,000	-	400,000
Undesignated		104,741	1,601	106,342
Total Fund Balance		<u>504,741</u>	<u>1,601</u>	<u>506,342</u>
Total Liabilities and Fund Balance		<u>\$ 504,741</u>	<u>\$ 4,221</u>	<u>\$ 508,962</u>

**CHARTER TOWNSHIP OF CHINA**

**St. Clair County, Michigan**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Special Revenue Funds</u>		
	<u>Public Improvements</u>	<u>Building Inspection</u>	<u>Total</u>
<b>Revenues:</b>			
Interest	\$ 18,262	\$ -	\$ 18,262
Licenses and permits	-	44,031	44,031
Total Revenues	<u>18,262</u>	<u>44,031</u>	<u>62,293</u>
<b>Expenditures:</b>			
Public Safety	<u>200</u>	<u>51,466</u>	<u>51,666</u>
Revenues over (under) expenditures	18,062	( 7,435)	10,627
<b>Other Financing Sources:</b>			
Transfers in	<u>-</u>	<u>5,000</u>	<u>5,000</u>
Net change in fund balances	18,062	( 2,435)	15,627
Fund Balances at beginning of year	<u>486,679</u>	<u>4,036</u>	<u>490,715</u>
Fund Balances at end of year	<u><u>\$ 504,741</u></u>	<u><u>\$ 1,601</u></u>	<u><u>\$ 506,342</u></u>

**CHARTER TOWNSHIP OF CHINA****St. Clair County, Michigan****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****NONMAJOR SPECIAL REVENUE FUNDS****BUDGET AND ACTUAL****FOR THE YEAR ENDED DECEMBER 31, 2005****PUBLIC IMPROVEMENT FUND**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Interest	\$ 5,000	\$ 5,000	\$ 18,262	\$ 13,262
<b>Expenditures:</b>				
General government	2,500	2,500	200	2,300
Public works	400,000	400,000	-	400,000
	<u>402,500</u>	<u>402,500</u>	<u>200</u>	<u>402,300</u>
Revenues over (under) expenditures	( 397,500)	( 397,500)	18,062	415,562
<b>Other Financing Sources:</b>				
Transfers in	<u>195,000</u>	<u>195,000</u>	<u>-</u>	<u>( 195,000)</u>
Net change in fund balance	( 202,500)	( 202,500)	18,062	220,562
Fund Balance at beginning of year	<u>386,082</u>	<u>386,082</u>	<u>486,679</u>	<u>100,597</u>
Fund Balance at end of year	<u>\$ 183,582</u>	<u>\$ 183,582</u>	<u>\$ 504,741</u>	<u>\$ 321,159</u>

**CHARTER TOWNSHIP OF CHINA****St. Clair County, Michigan****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****NONMAJOR SPECIAL REVENUE FUNDS****BUDGET AND ACTUAL****FOR THE YEAR ENDED DECEMBER 31, 2005****BUILDING INSPECTION FUND**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Licenses and permits	\$ 31,000	\$ 31,000	\$ 44,031	\$ 13,031
<b>Expenditures:</b>				
Public safety				
Building inspector	27,750	27,750	29,882	\$( 2,132)
Plumbing/Htg/Mechanical inspector	10,520	10,520	13,953	( 3,433)
Electrical	7,855	7,855	7,431	424
Professional fees	-	-	200	( 200)
	<u>46,125</u>	<u>46,125</u>	<u>51,466</u>	<u>( 5,341)</u>
Revenues under expenditures	( 15,125)	( 15,125)	( 7,435)	7,690
<b>Other Financing Sources:</b>				
Transfers in	-	-	5,000	5,000
Net change in fund balance	( 15,125)	( 15,125)	( 2,435)	12,690
Fund balance at beginning of year	-	-	4,036	4,036
Fund balance at end of year	<u>\$( 15,125)</u>	<u>\$( 15,125)</u>	<u>\$ 1,601</u>	<u>\$ 11,726</u>

**CHARTER TOWNSHIP OF CHINA**  
**St. Clair County, Michigan**

**AGENCY FUNDS**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	Balance January 1, 2005	Additions	Deductions	Balance December 31, 2005
<b>TOTAL ALL AGENCY FUNDS</b>				
<b>Assets:</b>				
Cash and cash equivalents	\$ 723,776	\$ 18,096,417	\$ 18,622,603	\$ 197,590
<b>Liabilities:</b>				
Due to -				
Other Funds	\$ -	\$ 1,192,760	\$ 1,192,760	\$ -
Individuals	26,400	28,061	31,461	23,000
Undistributed Taxes	697,376	16,320,820	16,843,606	174,590
	<u>\$ 723,776</u>	<u>\$ 17,541,641</u>	<u>\$ 18,067,827</u>	<u>\$ 197,590</u>

**CURRENT TAX COLLECTION FUND**

<b>Assets:</b>				
Cash and cash equivalents	\$ 697,376	\$ 18,057,302	\$ 18,580,088	\$ 174,590
<b>Liabilities:</b>				
Due to other funds	\$ -	\$ 1,192,760	\$ 1,192,760	\$ -
Undistributed taxes	697,376	16,320,820	16,843,606	174,590
	<u>\$ 697,376</u>	<u>\$ 17,513,580</u>	<u>\$ 18,036,366</u>	<u>\$ 174,590</u>

**PERFORMANCE BOND CUSTODIAL FUND**

<b>Assets:</b>				
Cash and cash equivalents	\$ 26,400	\$ 39,115	\$ 42,515	\$ 23,000
<b>Liabilities:</b>				
Due to individuals	\$ 26,400	\$ 28,061	\$ 31,461	\$ 23,000

## MANAGEMENT LETTER

To the Supervisor and  
Members of the Township Board  
Charter Township of China  
St. Clair County, Michigan

As you know, we have recently completed our audit of the financial statements of the Charter Township of China, Michigan, for the year ended December 31, 2005. In connection with the audit, we believe certain changes in your accounting procedures would be helpful in further improving management's control and the operational efficiency of the recordkeeping system. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

### **The procedure for reconciling bank statements to the general ledger should be reviewed.**

During the last quarter of 2005, the general ledger balance for various cash accounts was not reconciled until the second quarter of 2006. Failure to reconcile the cash accounts in a timely manner leaves opportunity for misstatements on the general ledger to occur.

During the audit we also noted entries that were made to the general ledger cash accounts for amounts which contained no supporting documentation. Upon further investigation, we found these entries to be adjustments made to force the general ledger balances to agree with the Treasurer's balances. A further review of the month's bank reconciliation revealed an unrecorded payroll run, three unrecorded accounts payable checks, and deposits recorded twice, with the net effect being the adjusting entry to cash.

An entry should never be made to force the general ledger balance to agree with the bank statement or Treasurer's balance. Instead, a further investigation should occur to locate the difference. Furthermore, the bank statements should be reconciled to the general ledger in a timely manner, such as within six weeks of month-end. Both of these steps will assist in avoiding inaccurate or fraudulent financial reporting.

### **Payroll liabilities should be reconciled to the general ledger balances.**

At year end, we noted balances of various payroll liability accounts that did not reconcile to actual amounts due to the various vendors (ie., Aflac, ICMA, State of Michigan, Internal Revenue Service, etc.). Failure to reconcile these payroll liability accounts led to incorrect withholding and remittance of some of these amounts.

We recommend that the amounts withheld, including the amount recorded in the applicable general ledger account, be reconciled to the amount being paid. If everything is recorded correctly, the general ledger liability accounts will clear to zero after each payroll is run and the amounts have been remitted.

**All journal entries should have approval and be properly documented.**

Our review of the journal entry process revealed that there is no formal procedure to create or approve journal entries.

Lack of a procedure that require all journal entries be numbered and accompanied by full explanation with reference to adequate support data and approval allows for the possibility of inaccurate or fraudulent financial reporting.

We recommend that all journal entries be numbered with a full explanation that references to adequate support data. Also, the journal entry should be approved by an individual that is able to analyze the accompanying information supporting the entry.

**The Township should reconcile wages reported per the General Ledger to wages reported on quarterly Federal Form 941's.**

During the audit, it came to our attention that the quarterly 941 wages filed were not reconciled to the wages reported on the Township General Ledger, which could result in several reclassification journal entries. To ensure posting accuracy and proper reporting, a quarterly reconciliation should be performed comparing wages reported per the Township General Ledger to wages reported on the Federal Form 941 filed. In addition, at the end of the year the total of the four quarterly 941 reports should agree to the total reported on the IRS Form W-3. Any difference should be investigated, and necessary corrections made.

**The Township should consider utilizing an accounts payable clearing account.**

Currently, the Township utilizes five (5) different checking accounts, (General Fund, Tax Fund, Sewer Fund, Performance Bond Fund, and two Water Funds) to pay accounts payable. To simplify the accounts payable process, the Township should consider utilizing one accounts payable checking account to pay all payables regardless of the fund being charged.

**The Water and Sewer accounts receivable subsidiary ledger should be reconciled to the general ledger on a monthly basis.**

During our audit we noted that the Township did not reconcile the detailed utilities accounts receivable ledger to the Township's general ledger. By not performing this reconciliation, transactions or adjustments may be posted to the general ledger, but not the accounts receivable ledger and vice versa. To increase the controls over the utility accounts receivable and cash receipts, and increase the accuracy on internally prepared financial statements, the detailed accounts receivable ledger should be reconciled to the general ledger on a monthly basis.

**A procedure should be established for deposit of receipts.**

During the audit, we noted several significant timing differences between when funds were received and entered into the cash receipt program and when funds were deposited into the bank account.

Although we recognize the part-time nature of the related positions, better procedures should be put into place for timely deposits of funds, especially at the end of each month, to assist in the bank reconciliation process.

**A complete and accurate list of performance bonds on deposit with the Township should be maintained.**

While a ledger is currently maintained for all of the activity in the performance bond account, a list of those people who still have deposits with the Township is not maintained.

We recommend that a schedule of performance bonds detailing the customer the deposit was received from, the amount of deposit, the deposit date, and the refunded date be created as of December 31, 2005, and be kept current from then on. All balances that have been forfeited should be transferred to the appropriate Township fund. The list should agree to the cash in the performance bond bank account.

These conditions were considered in determining the nature, timing and extent of the audit tests applied in our audit of the December 31, 2005 financial statements. We have not considered internal control since the date of our report. It is important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended solely for the information of management and the Board of the Charter Township of China, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our examination. We are available to discuss these matters with you and to provide assistance in the implementation of improvements.

Sincerely,

A handwritten signature in cursive script, appearing to read "Stewart, Beauvoir Whipple".

May 5, 2006